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Order 99-1-15



UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.

SERVED FEB 1 1999

Issued by the Department of Transportation
on the 29th day of January, 1999

Essential Air Service at

FAIRMONT, MINNESOTA
BROOKINGS, SOUTH DAKOTA
YANKTON, SOUTH DAKOTA
DEVILS LAKE, NORTH DAKOTA
JAMESTOWN, NORTH DAKOTA
NORFOLK, NEBRASKA

Docket OST-1998-3843-8
OST-1997-2785-4
OST-1998-3703-8
OST-1997-2785
OST-1997-2785
OST-1998-3704-8

under 49 U.S.C. 41731 *et seq.*

ORDER SETTING SUBSIDY RATE
UNTIL FURTHER DEPARTMENT ACTION

Summary

By this order, the Department is setting a final annual subsidy rate of \$4,794,180 for Great Lakes Aviation, Ltd., d/b/a United Express, for its provision of subsidized essential air service (EAS) at Fairmont, Minnesota, Brookings and Yankton, South Dakota, Devils Lake and Jamestown, North Dakota, and Norfolk, Nebraska, from September 28, 1998, until further Department action, but no later than April 1, 1999.¹

Background

By Order 98-5-19, issued on May 12, 1998, the Department requested proposals from carriers interested in providing essential air service at the six communities referenced above. Our request was prompted by Great Lakes' filing, on March 26 and April 1, 1998, of 90-day notices of intent to suspend its subsidized essential air service at Fairmont, Norfolk, and Yankton. Great Lakes serves those three communities as part of a subsidized six-city package that also includes Devils Lake, Jamestown, and Brookings. It currently provides all six communities with three round trips a day to Minneapolis at a combined annual subsidy rate of \$4,070,247 under Order 97-8-9.

¹ See Appendix A for a map.

In its 90-day notices, Great Lakes states that it is sustaining continuing losses on these routes because traffic and revenues generated are far short of the amounts projected under its current subsidy rate order. Three factors contribute to the low traffic: the absence of attractive joint fares with Northwest Airlines, which dominates connecting services at Minneapolis; Great Lakes' inferior gate positions at the Minneapolis Airport; and the relative proximity of several of the communities to alternative airports by highway. Fairmont is relatively close to both Minneapolis and Sioux Falls via interstate highways; Norfolk is within a reasonable driving distance from both Omaha and Sioux City; and Yankton is located within a reasonable driving distance from both Sioux Falls and Sioux City.

Carrier Proposal

In response to our request for proposals, Great Lakes was the only applicant. For the near-term, Great Lakes proposes to continue to provide 18 round trips a week between each of the six communities and Minneapolis with 19-seat Beech 1900 aircraft. Specifically, Great Lakes has agreed to provide 18 nonstop round trips each week between Minneapolis and Fairmont, Brookings, Jamestown, and Yankton; and 18 nonstop or one-stop round trips each week between Minneapolis and both Devils Lake and Norfolk. At the same time Great Lakes is exploring a longer-term service pattern that might result in either a lower subsidy requirement and/or better service for some of the communities. As a result, the carrier proposes only a short-term subsidy rate for the existing service on the assumption that it will propose a change in service pattern for the communities.²

Decision

We have decided to establish a short-term subsidy rate for Great Lakes, as the carrier proposed, to continue its existing service as outlined in Appendix C at the annual subsidy rate of \$4,794,180, effective September 28, 1998, until the Department takes further action, but no later than April 1, 1999.³ In doing so, however, we note an area of potential improvement that we believe could result in significantly more responsive service for the communities and decreased subsidy burdens.

Great Lakes has commented that its services at the six communities do not enjoy the benefit of attractive through fares for passengers connecting at Minneapolis to longer-haul destinations. In that respect, we have raised informally with Northwest the possibility of a Northwest Airlink proposal, including more attractive through fares and other marketing benefits, as a more cost-effective alternative to Great Lakes' service. Absent that option, we would encourage Northwest's cooperation with Great Lakes to afford the communities marketable joint fare opportunities, which should benefit all parties -- the communities in the form of more affordable fares, and both Great Lakes and Northwest in the form of

² Before implementing any service changes, Great Lakes would have to submit its proposal to the Department of Transportation for approval. In that process, we would solicit community views before taking action.

³ Appendix B contains details of Great Lakes' compensation requirements.

increased traffic and revenues. We will remain open to more cost-effective proposals on behalf of the EAS communities.

As a final matter, we have earmarked a specific dollar amount for local advertising in the carrier's subsidy rate and we fully expect the carrier to use that amount as proposed to continue to promote its service at these essential air service communities.

Carrier Fitness

Before we may pay a carrier for the provision of essential air service, 49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing and able to provide reliable service. We last found Great Lakes fit to provide scheduled passenger service as a commuter air carrier when we selected it to provide subsidized air service at Cortez, Colorado, by Order 98-11-20, November 20, 1998. Since then, the Department has routinely monitored the carrier's continuing fitness, and no information has come to our attention that would lead us to question its ability to operate in a reliable manner. The Federal Aviation Administration has advised us that the carrier is conducting its operations in accordance with its regulations, and knows of no reason why we should not find that Great Lakes remains fit.

This order is issued under authority delegated in 49 CFR 1.56a(f).

ACCORDINGLY,

1. The Department sets the final rate of compensation for Great Lakes Aviation, Ltd., d/b/a United Express for the provision of essential air service at Fairmont, Minnesota, Brookings and Yankton, South Dakota, Devils Lake and Jamestown, North Dakota, and Norfolk, Nebraska, effective September 28, 1998, until further Department action in this case, but no later than April 1, 1999, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the ceiling per week of \$15,679.55, and shall be determined by multiplying the subsidy-eligible departures from and arrivals at the hub completed during the month by \$435.54;⁴
2. The annual subsidy rate we are authorizing in ordering paragraph 1 above is in lieu of, and not in addition to, the rate set in Order 97-8-9;
3. We find that Great Lakes Aviation, Ltd., d/b/a United Express, continues to be fit, willing and able to operate as a commuter air carrier and capable of providing reliable essential air service at Fairmont, Minnesota, Brookings and Yankton, South Dakota, Devils Lake and Jamestown, North Dakota, and Norfolk, Nebraska;

⁴ See Appendix C for the calculation of this rate, which assumes the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, revision of this rate may be required.

4. We direct Great Lakes Aviation, Ltd., d/b/a United Express, to retain all books, records, and other source and summary documentation to support subsidy claims for payment, and to preserve and maintain such documentation in a manner that readily permits its audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;

5. These dockets will remain open until further order of the Department; and

6. We will serve a copy of this order on the Mayors and airport managers of Fairmont, Minnesota, Brookings and Yankton, South Dakota, Devils Lake and Jamestown, North Dakota, and Norfolk, Nebraska, the Governors of Minnesota, Nebraska, North Dakota, and South Dakota, the Departments of Transportation of Minnesota, Nebraska, North Dakota, and South Dakota, Northwest Airlines, Inc., United Air Lines, Inc., and Great Lakes Aviation, Ltd., d/b/a United Express.

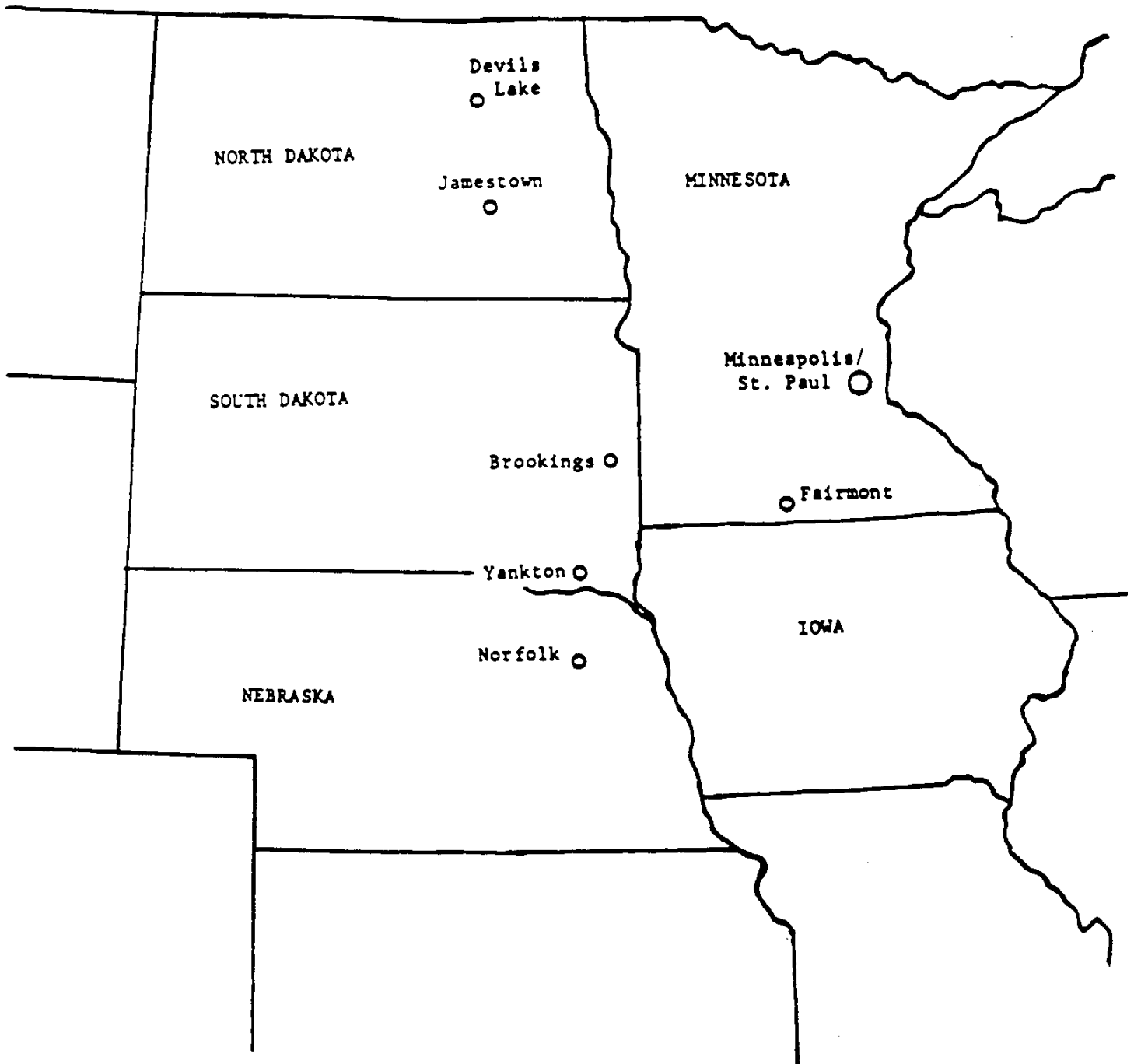
By:

CHARLES A. HUNNICUTT
Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web at
http://dms.dot.gov/reports/reports_aviation.asp
The electronic version may not include all of the appendices.*

Appendix A



GREAT LAKES AVIATION

	YKN	4,401	65	OFK/YKN	SPW	2,108	54	FRM	DVL	6,800	89	DVL/JMS	BKX	Total
	OFK	3,281	69	286,065	FRM	2,474	53	113,832	DVL	6,800	82	605,200	5,966	NA
	GRI	5,499	89	489,411		4,582		131,122	JMS	6,800		557,600	65	NA
		13,181		1,001,865				244,954				1,162,800	387,790	2,797,409
Pax. Rev.				1,007,876				246,424				1,169,777	390,117	2,814,194
Total (0.6%)				3,384 1/				1,342 2/				3,313	1,748 4/	9,787
Block Hours														
Flt. Hours				13,181				4,582				13,600	5,966	37,329
Passengers				4,305,905 1/				584,036 2/				4,624,000 3/	1,085,812 4/	10,599,753
RPMs				12,903,325 1/				4,132,094 2/				13,322,945 3/	6,364,242 4/	36,722,606
ASMs				4,908 1/				2,351 2/				3,681 3/	1,840 4/	12,780
Elig. Deps.				4,908 1/				2,351 2/				3,681 3/	1,840 4/	12,780
Total Cycles				100.00% 1/				50.00% 2/				100.00% 3/	50.00% 4/	3
Aircraft %				369,533				146,546				361,780	190,882	1,068,741
Flt. Ops. @ \$109.20/ Blk. Hr.				138,066				44,213				142,556	68,097	392,932
Fuel @ \$.0107/ASM (\$.86/gall.)				259,535				124,321				194,651	97,299	675,806
Fuel @ \$52.88/ Dep (\$.86/Gallon)				378,534				150,116				370,592	195,531	1,094,773
Maint. @ \$111.86/ Blk. Hr.				168,099				80,522				126,074	63,020	437,715
Maint. @ \$34.25/Cycle				24,600				12,300				24,600	12,300	73,800
Ins. @ \$24,600/ Aircraft				432,000				216,000				432,000	216,000	1,296,000
A/C @ \$432,000				1,770,367				774,018				1,652,253	843,129	5,039,767
Total Directs														
	YKN	OFK		Total				FRM	DVL	JMS		DVL/JMS	BKX	
Facility Lease	7,200	6,000		13,200				7,200	15,600	14,520		30,120	5,400	55,920
Hangar Fee									12,000			12,000		12,000
Landing Fee	3,960	9,204		13,164				3,000	3,300	4,404		7,704	3,000	26,868
Local Adv.	5,000	5,000		10,000				5,000	5,000	5,000		10,000	5,000	30,000
Station Mgr.	22,600	22,600		45,200				22,600	22,600	22,600		45,200	22,600	135,600
Station Agents	34,600	34,600		69,200				34,600	34,600	34,600		69,200	34,600	207,600
Deicing @ \$125/turn	9,625	19,250		28,875				9,625	9,625	19,250		28,875	9,625	77,000 5/
Other Turns --(GRI, SPW, HON)				43,557				27,351				0	0	70,908
MSP				133,400				133,400				133,400	133,400	533,600
Liab. Ins. @ \$.00429/RPM				18,472				2,506				19,837	4,658	45,473
Actg. @ \$.269/Pax.				35,457				12,326				36,584	16,049	100,416
Sec. @ \$.88/Pax.				11,599				4,032				11,968	5,250	32,849
Talk. @ \$.147/Pax.				19,376				6,736				19,992	8,770	54,874
Res. @ \$10.76/Pax.				141,828				49,302				146,336	64,194	401,660
Sup. @ \$.64/Pax.				8,436				2,932				8,704	3,818	23,890
Commun. @ 6.1 %				61,480				15,032				71,356	23,797	171,665
Train. @ \$.40/pax.				5,272				1,833				5,440	2,386	14,931
Adm. @ 3% of Oper. Exp.				72,866				33,345				69,269	35,570	211,050
Total Indirects				731,382				370,820				725,985	378,117	2,206,304
Total Oper.				2,501,749				1,144,838				2,378,238	1,221,246	7,246,071
Econ. Cost				2,626,836				1,202,080				2,497,150	1,282,308	7,608,374
Subsidy @ 98 %				1,618,960				955,656				1,327,373	892,191	4,794,180

1/ Norfolk, Nebraska, and Yankton, South Dakota

GRI: 1,978 passengers / .94 completion x .98 x 4 quarters x 2/3 historical flights = 5,499 pax.
 Blk. Hours, GRI-OFK-YKN-MSP:
 (29+24+67)min. x 24 flts./week x 52 weeks x 313/312 x .98/60 =
 (24+67)min. x 12 flts./week x 52 weeks x 313/312 x .98/60 =
 (84+64+249)mi. x 24 flts./week x 52 weeks x 313/312 x .98 x 19 seats =
 (64+249)mi. x 12 flts./week x 52 weeks x 313/312 x .98 x 19 seats =
 3 depts./ft. x 24 flts./week x 52 weeks x 313/312 x .98 =
 2 depts./ft. x 12 flts./week x 52 weeks x 313/312 x .98 =
 RPMs: GRI 5,499 397 2,183,103
 OFK 3,281 313 1,026,953
 YKN 4,401 249 1,095,849
 4,305,905

2/ Fairmont, Minnesota

SPW: 1,000 pax. / .93 completion x .98 x 4 quarters x 1/2 historical flights = 2,108
 Blk. Hours, SPW-FRM-MSP:
 (22.5+37.5)min. x 10 flts./week x 52 weeks x 313/312 x .98/60 =
 37.5 min. x 26 flts./week x 52 weeks x 313/312 x .98/60 =
 FRM-MSP:

ASMs, SPW-FRM-MSP:
 FRM-MSP:
 (51+104)mi. x 10 flts./week x 52 weeks x 313/312 x .98 x 19 =
 (104)mi. x 26 flts./week x 52 weeks x 313/312 x .98 x 19 seats =

Deps, SPW-FRM-MSP:
 FRM-MSP:
 2 depts./ft. x 10 flts./week x 52 weeks x 313/312 x .98 =
 1 dep./ft. x 26 flts./week x 52 weeks x 313/312 x .98 =

RPMs: SPW 2,108 155 326,740
 FRM 2,474 104 257,296
 584,036

3/ Devils Lake and Jamestown, North Dakota

Blk. Hours, DVL-JMS-MSP:
 (30+78)min. x 36 flts./week x 52 weeks x 313/312 x .98/60 =
 (82+299)mi. x 36 flts./week x 52 weeks x 313/312 x .98 x 19 =
 ASMs, DVL-JMS-MSP:
 2 depts./ft. x 36 flts./week x 52 weeks x 313/312 x .98 =
 DVL-JMS-MSP:
 RPMs: DVL 6,800 381 2,590,800
 JMS 6,800 299 2,033,200
 4,624,000

4/ Brookings, South Dakota

Blk. Hours, BKX-MSP:
 57min. x 36 flts./week x 52 weeks x 313/312 x .98/60 =
 182mi. x 36 flts./week x 52 weeks x 313/312 x .98 x 19 seats =
 ASMs, BKX-MSP:
 1 dep./ft. x 36 flts./week x 52 weeks x 313/312 x .98 =
 DVL-JMS-MSP:
 RPMs: BKX 5,966 182 1,085,812

7/ 18 turns per week x 52 x 313/312 x .98 x 1/3 of year x 1/4 of flights = 77 turns x \$125/turn/station = \$9,625.
 Double that amount for Yankton and Jamestown, which are intermediate points.

2,454
 930
 9,254,959
 3,648,366
 3,681
 1,227

511
 831
 1,342
 1,505,582
 2,626,512
 4,132,094
 1,022
 1,329
 2,351

3,313
 13,322,945
 3,681

1,748
 6,364,242
 1,840

**GREAT LAKES AVIATION
ESSENTIAL AIR SERVICE AT
FAIRMONT, MINNESOTA, BROOKINGS AND YANKTON, SOUTH DAKOTA,
DEVILS LAKE AND JAMESTOWN, NORTH DAKOTA, AND
NORFOLK, NEBRASKA**

EFFECTIVE PERIOD:	September 28, 1998, until further Department action, but no later than April 1, 1999
SERVICE:	
Brookings, Fairmont, Jamestown, and Yankton	Nonstop to Minneapolis/St. Paul
Devils Lake and Norfolk	One-stop to Minneapolis/St. Paul
MINIMUM FREQUENCY:	18 round trips each week between each community and Minneapolis/St. Paul
AIRCRAFT TYPE:	Beech 1900D (19 passenger seats) ¹
TIMING OF FLIGHTS:	Flights must be well-timed and well-spaced to ensure full compensation.
ANNUAL SUBSIDY RATE:	\$4,794,180
	This rate assumes an annual completion factor of 98 percent. A compensation ceiling is to be applied per calendar week such that service above that ceiling in one week cannot make up for service shortfalls in another week.
WEEKLY COMPENSATION CEILING AT EACH COMMUNITY ²	\$15,679.55
SUBSIDY RATE PER DEPARTURE/ARRIVAL	\$435.54 ³

¹ Up to 10 percent of the flights at each community may be operated with Beech 1900Cs.

² \$4,794,180 divided by .98 completion divided by 6 communities divided by 52 weeks.

³ Weekly ceiling of \$15,679.55 divided by 36 weekly flights at each community.

NOTE

The carrier has been notified that it may forfeit its eligibility for compensation for any flights that it does not operate in full conformance with the terms and stipulations of this order, including the service plan outlined in this order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of this order during the applicable period of this order, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly subsidized points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to this order do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.